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ABSTRACT

Reactions to zero-based budgeting in the State of Georgia as it pertains to institutions of higher education are discussed. Major advantages and disadvantages of zero-based budgeting as reported by budget analysts and selected department heads in state agencies were examined by George Minmier and Roger Hermanson (1976). Zero-based budgeting was used at the University of Georgia to prepare preliminary budgets for all activities except primary resident instruction, research, and public service. Zero-based budgeting is based on the belief that programs, functions, and activities themselves should be justified and not annual increments in agency or unit budgets. Unfortunately, in higher education, organizational goals are determined to a great extent by the funds that are available (or by the prospects of additional funding) than by clear-cut choices made prior to the availability of funds. It is held that there is no evidence that zero-based budgeting results in more clearly established goals or that it provides better measures of performance or progress toward the fulfillment of those goals. It is concluded that while zero-based budgeting may be helpful in eliminating costly add-ons or accessories to essential programs and a needless duplication of costs in fringe or marginal activities, there is little about the process that would suggest that it is a cost/effective technique in its own right. (SW)

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THE LUST FOR EFFICIENCY: A DOWNHOME STORY

or

The Implications of Zero-Based Budgeting for Institutions of Higher Education as Seen from the State of Georgia's Experience.

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THE LUST FOR EFFICIENCY: A DOWNHOME STORY

To judge from its publicity, zero-based budgeting has become as much a part of Washington news coverage as human rights and the energy crisis. The Wall Street Journal reports that in late January, Peter Pyhrr's book on zero-based budgeting reached the Washington Post's list of non-fiction best sellers. The concept has been much covered in popular periodicals such as Business Week and has been the subject for hearings before the Task Force on Budget Process of the U.S. House Committee on the Budget. The subject has even dented the provinciality of the Atlanta Constitution.

The popularity of a relatively new, but obscure, budgeting procedure is attributed to the election of Jimmy Carter, the former governor of Georgia, and his stated intentions to apply zero-based budgeting across the board in federal agencies. As much as many proponents of zero-based budgeting would contend it is merely common sense, it is nonetheless an elaborate process in budgetary justification. Yet, according to the Wall Street Journal, zero-based budgeting is used by many major companies and multinational corporations. Testimonials are freely given to the advantages accruing from the application of zero-based budgeting, and no less an authority than Arthur Burns, Chairman of the Federal Reserve Board, indicated some years ago that the adoption of zero-based budgeting could be a significant factor in the control of governmental expenditures.

The arrival of zero-based budgeting is dated from Peter Pyhrr's article in Harvard Business Review (1970) and from its adoption by Jimmy Carter who had just then been elected governor of Georgia.

The purpose of this paper is to discuss the reactions to zero-based

budgeting in the State of Georgia as it pertains to institutions of higher education. Few assumptions will be made about the success or failure of zero-based budgeting in corporate industry or in federal government. Some skepticism might be expressed, however, about the appropriateness and implications of zero-based budgeting for colleges and universities.

The Georgia Experience in State Government

The experience of state agencies in Georgia with zero-based budgeting has been examined by George Minmier and Roger Hermanson (1976). Minmier and Hermanson report data collected in a survey questionnaire sent to 39 budget analysts who were involved in zero-based budgeting. The study also included follow-up interviews with selected departmental budget analysts and with selected department heads; also interviewed was former governor Jimmy Carter.

Although these investigators found a generally favorable attitude toward zero-based budgeting, there are several findings that require interpretation. For example, the majority of budget analysts believe the quality of management information gathered under zero-based budgeting has improved slightly or substantially but they do not believe zero-based budgeting has resulted in a significant reallocation of the state's financial resources.

A majority reported that zero-based budgeting increased considerably the time and effort spent in budget preparation its first year. After implementation, zero-based budgeting required much greater or slightly more time than the previous incremental budgeting system. Respondents are in less agreement about the amount of involvement zero-based budgeting

required of the agency head and its first line supervisors. Although agency heads tend to be more involved with zero-based budgeting, first line supervisors are clearly more involved than they were in the previous incremental system.

As would be expected, perhaps, the majority of respondents in the survey did not feel adequate advanced planning had been made on the part of the Budget Bureau in implementing zero-based budgeting. Nor did the respondents feel they had adequate cost data available to prepare decision packages properly. They did feel they had received adequate instructions during the first year of zero-based budgeting and that they now have the information needed and that adequate cost data to prepare a decision package are now available.

Minmier and Hermanson note three primary advantages to the implementation of zero-based budgeting in Georgia. The first advantage is the establishment of a planning phase prior to the budgeting phase itself. A second advantage is an improvement in the quality of management information resulting from zero-based budgeting. The third advantage is an increase in the involvement of personnel at the activity level in the State's budgeting process. They conclude the major disadvantage associated with zero-based budgeting is the increased time and effort required for budget preparation. On balance, zero-based budgeting has served the best interest of Georgia. The budget analysts in their survey evidently believe zero-based budgeting should be continued in the State of Georgia. Only five budget analysts recommended its discontinuance.

The University System of Georgia

For fiscal year 1973 the institutions of the University System of

Georgia were asked to prepare a preliminary zero-based budget for all activities except primary resident instruction, research, and public service. Selected units under resident instruction were at first included in the requirement but later exempted. As a result, only the Agricultural Experiment Station, the Cooperative Extension Service, and the Marine Resources Extension Center now prepare a preliminary budget request using zero-based budgeting methods. Although these units prepare preliminary zero-based budgets, they actually prepare operating budgets and maintain all accounts by conventional budgetary methods. There is no planning, preparation, or any other remaining application of the zero-base concept in any resident instruction units. There is good reason to believe, therefore, that zero-based budgeting has not been utilized in a higher education setting in the State of Georgia (Barber, 1977).

Yet the requirement of zero-based budgeting in the preliminary budget requests for fiscal year 1973 created considerable activity within the University of Georgia. A flow chart of the University of Georgia's budget was prepared, evidently for the first time, and with much other data gathered, resulted in an appreciation of the University's 300-plus budgetary units that had not been possible previously. This appreciation may be the most significant outcome of the experience to date. Budget heads on the University of Georgia campus who were involved in the process report varying opinions and beliefs concerning the efficiency of zero-based budgeting. At least one experienced budget head believes the method gave him better grounds on which to discuss his functions and activities with superiors. To no little extent, he thought the approach gave him "a manipulative advantage" over his superiors rather than visa

versa. The continued use of zero-based budgeting in preliminary requests for the Agricultural Experiment Station and the Cooperative Extension Service is not seen as helpful, however, because of the diverse funding sources. State, federal, and University System requirements must be met, each imposing its own burden of paperwork.

Basic Assumptions and Implications

If zero-based budgeting gives a sense of Deja Vu, it is because of higher education's experience with PERT, PPBS, and MBO. The pattern of these three managerial techniques and zero-based budgeting has many similarities. Each technique has roots in corporate industry, transferred experience in public administration, and then a period of advocacy for institutions of higher or postsecondary education. In each case, the transfer of technique, first to government and then to higher education, came with something bordering on religious fervor.

Even a quick skimming of Peter Pyhrr's book or his article in Harvard Business Review will trigger a cynical humming of, "It seems to me I've heard that song before". The technique begins with "promises, promises" and leads quickly to linear arrangements in charted passages through operational mazes. As in most managerial techniques, there is the belief that corporate industry, government, and education are isomorphic in their demands for and their amenability to managerial effectiveness. There is an explicit faith that techniques developed in one organizational setting can be transferred without extensive modification to other organizations and institutions. Pyhrr hedges only slightly in referring to philosophy and procedures that are "almost identical".

The justification of zero-based budgeting itself is the belief that programs, functions, and activities themselves should be justified and

not annual increments in agency or unit budgets. The process makes a distinction between planning and budgeting but is not explicit about the nature and details of planning that must clearly proceed the budgeting process. The development of a zero-based budget assumes that work can be broken out into functional units that can then be re-assembled as a system of interlinking parts. An implicit interaction of goals, operations, and organizational capabilities is recognized.

The basic assumptions underlying zero-based budgeting may be identified as: (1) it will permit an analysis of purposes, costs, and benefits, (2) alternative courses of action can be specified, (3) the consequences of those alternatives can be identified and assessed, (4) the process will improve the effectiveness of resource utilization, (5) the involvement of managerial personnel at operational levels will eventually reduce the budgeting process, and (6) successful application of the technique will result in better decision making, as well as suggestions for innovation.

Such assumptions are not unknown in PERT, PPBS, and MBO and there is temptation to conclude that zero-base budgeting is but another rational, management tool that offers a systematic way of examining ongoing programs and activities that is normally exercised for new or expanded programs only. Such advantages as zero-based budgeting might have for higher education would appear to be the rudeness with which it breaks into daily routine and requires a critical look at functions and activities long taken for granted. A decided advantage, however, might accrue from the emphasis zero-based budgeting ostensibly places on lower-level decision making in the budgetary process. There are always academic department heads who would welcome a more direct input to the

budget process and better control over budgetary expenditures.

In Pyhrr's opinion, zero-based budgeting is effective because it focuses on the actual dollars required for successful operation and not on percent increase or decrease in the agency budget as such. How well this would permit institutions of higher education to identify and compare priorities both within and among departments or divisions of instruction remains to be seen. Program budgeting did not succeed in this respect, and it is well to recall that zero-based budgeting has specifically excluded direct production and manufacturing costs from the process. Zero-based budgeting is applicable, according to Pyhrr, only to the administrative, technical, or nonproductive portions of the corporate budget. For a labor-intensive "industry" such as higher education where the major production units are academic departments, the technique could involve some jarring implications.

The Product is the Process

The most audacious assumption of zero-based budgeting, however, is its requirement that the goals and objectives of an organizational unit should determine its budget -- and not the converse.

Many of us wish this were true in higher education. Unfortunately, organizational goals, being more implied than explicit, are determined to a greater extent by the funds that are available (or by the prospects of additional funding) than by clear-cut choices that are made prior to the availability of funds.

There is no evidence that zero-based budgeting results in more clearly established goals or that it provides better measures of performance or progress toward the fulfillment of those goals. The budgeting

process is still dependent upon an ex post facto form of rationalization that permits or requires the budget maker to justify expenditures in terms of worthy directions and commitments. While zero-based budgeting may be helpful in eliminating costly add-ons or accessories to essential programs and a needless duplication of costs in fringe or marginal activities, there is little about the process that would suggest that it is a cost/effective technique in its own right. The test might be whether the money it saves is worth the money it costs. Staff time, paper, photocopying, etc. are all costs that are added on to the usual cycle of budget-making whatever that usual cycle might be. A process that eliminates expenses for the trivial or incidental but costs unknown amounts in staff time and clerical materials is not cost/effective by virtue of savings alone.

Nor is there anything in zero-based budgeting that prevents trade-offs, compromises, negotiation, treaties, pay-offs, and other forms of political behavior on the part of those making out the budget. Decision packets will still be identified with decision makers and the logical necessity of certain functions or activities will always be more obvious than others. At the same time, there will always be the uneven administration of the decisions and judgements that must be made to keep the process credible.

In conclusion, there may be little about zero-based budgeting that is novel or unique. And there may be little about it that promises any special advantages or benefits for institutions of higher education. Its only advantages may be the process it requires -- and the benefits may be too subtle for widespread adoption in higher education. There is at this time good reason to believe that the virtue or merits of zero-based

budgeting lie in process only. No one should expect miracles from the product.

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